Malaysia

Malaysian Budget 2023 - Tax Highlights

3 March 2023

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Budget 2023

On 24 February 2023, the Prime Minister and Minister of Finance, YAB Dato' Seri Anwar Ibrahim re-tabled the Malaysian Budget 2023 (**"Budget"**) themed *"Building Malaysia Madani"*. The Budget is centered around the core values of Sustainability, Prosperity, Innovation, Respect, Trust and Compassion.

The 3 main focus areas of the Budget are: (i) driving an inclusive and sustainable economy; (ii) inspiring confidence with institutional and governance reforms; and (iii) facilitating social justice by reducing inequality.

The Government projects that there will be 4.5% economic growth and against a backdrop of global economic uncertainty, decline in investments and high inflation, the Government has allocated RM388.1 billion for this budget, which is the largest expansionary budget in the country's history (surpassing the RM322.1 billion allocated for Budget 2022).

Tax collection remains the largest contributor to the Government's revenue representing 74.9% of total revenue. In administering taxes, the Government intends to adopt a more progressive tax structure to ensure fair distribution of revenue to prioritize the low and middle-income groups. Although there are no plans to re-introduce the Goods and Services Tax (GST) for now in view of the current high-inflation and low-wages environment, there are various other tax measures introduced under the Budget to expand the tax base to high-income earners.

These measures include the increase to the personal income tax rates of higher income groups, imposition of luxury goods tax, voluntary disclosure programs and capital gains tax for the disposal of unlisted shares by companies.

We set out below some of the key tax highlights of the Budget and our analysis of these proposals.

1. Personal Income Tax

1.1. Review of Resident Individual Income Tax Rates

In dealing with high cost of living and to increase the disposable income among the middle-income group, the Government has proposed to reduce the resident individual income tax rate by 2% for each chargeable income band between RM 35,001 to RM 100,000. Meanwhile, there is an increase of 0.5% to 2% for chargeable income band between RM 100,000 to RM 1 million.

A comparison of the current individual income tax rate and the proposed tax rate are as follows:

Chargeable Income (RM)	Current Tax Rate (%)	Proposed Tax Rate (%)
0 - 5,000	0	0
5,001 - 20,000	1	1
20,001 - 35,000	3	3

35,001 - 50,000	**8**	**6**
50,001 - 70,000	**13**	**11**
70,001 - 100,000	**21**	**19**
100,001 - 250,000	**24**	**25**
250,001 - 400,000	**24.5**	**25**
400,001 - 600,000	**25**	**26**
600,001 - 1,000,000	**26**	**28**
1,000,001 - 2,000,000	28	28
Over 2,000,000	30	30

Reduced **Increased**

Our thoughts:

By reducing the personal income tax rates for the M40 group and increasing the income tax rates for T20 group, the Government aims to narrow the income gap in Malaysia and reduce the economic inequality in Malaysia.

The proposed amendment is also aimed at boosting the disposable income of the M40 group in Malaysia, a segment that is often overlooked as attention is typically directed towards the financially vulnerable B40 and hardcore poor communities. Despite being relatively better off, the M40 group has been significantly impacted by the pandemic and rising living expenses in recent years. The reductions are expected to provide approximately 2.4 million taxpayers with excess disposable income of up to RM 1,300 per year.

A higher disposable income for the M40 group may be contributed back to the economy in the form of higher consumption, which in turn, could increase the demand of goods and services.

1.2. Review of Income Tax Relief for Medical Treatment Expenses

In line with the Government's focus to improve its citizens' health and wellbeing, the Government has proposed to increase the amount of tax relief for medical expenses from RM8,000 to RM10,000, with effect from Year of Assessment ("**YA**") 2023. The scope of tax relief is also expanded to cover the intervention expenditure of up to RM 4,000 for Autism, Attention Deficit Hyperactivity Disorder (ADHD), Global Developmental Delay (GDD), Intellectual Disability, Down Syndrome and Specific Learning Disabilities, including:

(a) diagnostic assessment certified by a medical practitioner registered with the Malaysian Medical Council (MMC); and

(b) early intervention and rehabilitation programmes conducted by health profession practitioners registered under the Allied Health Profession Act 2016.

1.3. Tax Relief on Voluntary Contribution to Employee Provident Fund (EPF)

With effect from YA 2023, the scope of RM 3,000 tax relief on life insurance premium or takaful contribution is expanded to include additional EPF voluntary contribution or both. This means that a member who contributes either compulsorily or voluntarily (tax relief up to RM 4,000) and makes additional voluntary contributions will be able to enjoy tax relief of up to RM 7,000. This amendment is also applicable to civil servants under the pension scheme.

2. Corporate Income Tax

2.1. Review of Income Tax Treatment For Micro, Small and Medium Enterprises (MSMEs)

Micro, Small and Medium Enterprises (MSMEs) is a company or a Limited Liability Partnership (LLP) that has a paid-up capital of RM 2.5 million and below with an annual sales turnover not exceeding RM 50 million per year. The Government has proposed to reduce the tax rate by 2% for the first RM 150,000 chargeable income to increase the competitiveness of MSMEs and to promote economic growth; whereas, the tax rates for the remaining taxable income to be maintained at 17% and 24% as follows (effective from the year of assessment 2023). The proposed tax rates are as follows:

Chargeable Income (RM)	Proposed Tax Rate (%)
First RM 150,000	**15%**
RM 150,001 – RM 600,000	17%
RM 600,001 and above	24%

2.2. Review of Accelerated Capital Allowance in Manufacturing, Services and Agriculture Sector

Presently, accelerated capital allowance (ACA) and 100% tax exemption on qualifying capital expenditure for automation equipment are given to companies in the manufacturing and services sector.

To promote the use of technology in the agriculture sector, the Budget proposed that the scope of existing tax incentives be expanded to the agriculture sector. Additionally, the scope of automation is expanded to include the adaptation of Industry 4.0 elements. The overall capital expenditure threshold is increased to RM 10 million for Category 1, 2 and agriculture sector:

Category 1: Labour-intensive industry (rubber, plastic, wood and textile products); and

Category 2: Industries other than Category 1 including the services sector.

This tax incentive is available to applications received by the Malaysian Investment Development Authority (MIDA) and Ministry of Agriculture and Food Security (MAFS) from 1 January 2023 until 31 December 2027.

2.3. Introduction of Capital Gains Tax for Disposal of Unlisted Shares by Company

The Government will study the possibility of the introduction of Capital Gains Tax ("**CGT**") at a low rate for the disposal of unlisted shares by companies from YA 2024. The Government will hold consultation sessions with relevant stakeholders to consider the details of this proposal.

Our thoughts:

At present, there is no CGT regime in Malaysia save for the disposal of real property and shares in real property companies under the real property gains tax framework. Before implementing the proposal to introduce capital gains tax on the disposal of unlisted shares from 2024, a thorough study should be conducted.

The introduction of CGT on the disposal of unlisted shares could potentially impact merger and acquisition (M&A) activities in Malaysia and internal restructuring of companies, as it will add to the costs of doing business. Companies would need to factor in the tax when considering the potential costs and benefits of various business transactions and may need to spend resources on compliance and administration related to the tax, such as tracking and reporting capital gains and losses.

While enacting a CGT would increase future government revenue collections, the benefits would have to be weighed against Malaysia's attractiveness as an ASEAN investment destination. Investors may view the tax as a barrier to investment, if the tax imposed will significantly reduce their returns.

The Government may also consider exemptions and reliefs surrounding the CGT regime so as not to discourage internal corporate restructuring that can lead to improved efficiency, competitiveness, and profitability for the companies involved e.g. intra-group transactions.

2.4. BEPS 2.0: Pillar 2

To empower Malaysia to broaden its tax base while remaining competitive in attracting foreign direct investment, the Government has alluded the introduction of a minimum effective tax rate at the global level as recommended under Pillar 2 of the BEPS Action Plan 1.

The Government has also announced its plan to introduce and implement the Qualified Domestic Minimum Top-up Tax (QDMTT).

Our thoughts:

Being a member of the OECD Inclusive Framework, Malaysia is committed to internationally agreed tax standards to combat perceived aggressive cross-border tax planning. Based on the Ministry of Finance's public consultation paper on the implementation of the GloBE Rules (OECD's Global Anti-Base Erosion Model Rules (Pillar Two) dated 20 December 2021) in Malaysia dated 1 August 2022, the Government is currently reviewing the technical details for implementing:

<u>A minimum effective tax rate at the global level of 15% (GMT)</u>

According to the GloBE Rules, the 15% rate of minimum tax will apply to multinational enterprises with revenue above EUR 750 million (RM 3.5 billion) annually. The minimum effective tax will ensure a level playing field *between countries in attracting foreign direct investment and prevent tax base leakage and profit transfer to countries with low tax rates.*

<u>Qualified Domestic Minimum Top-up Tax (QDMTT)</u>

The QDMTT ensures that any top-up tax (due to a difference between the minimum tax rate of 15% and effective tax rate) in respect of profits earned in Malaysia is collected in Malaysia, and will not be ceded to other countries. Without QDMTT, the country in which the ultimate parent company of the multinational (MNC) resides will be entitled to collect the top-up tax that Malaysia has forgone.

The Government's statements on GMT and QDMTT demonstrate that their implementation can be reasonably expected in the near future. Affected MNCs should prepare themselves to reduce the uncertainties of the impact of these changes on their operations and cash-flow by undertaking an early impact assessment on a group-wide perspective and identify risk areas. MNCs would also need to start rethinking their tax incentives on a jurisdictional basis, by factoring in effective tax rate of other companies in the same country to minimize the top-up tax payable.

3. Incentives / Reliefs

3.1. Tax Incentives to Support Environmental Sustainability

3.1.1. Tax Deduction for Sponsorship of Smart Artificial Intelligence (AI) - Driven Reverse Vending Machine

In line with Malaysia's Plastics Sustainability Roadmap 2021-2030 which outlines the strategies and action plans to achieve greater levels of plastic recycling ecosystem in Malaysia, the Budget proposed that tax deduction up to RM 100,000 be given to companies and non-companies (individuals, partnerships, trusts and cooperatives that have business income) that makes donations and sponsorships of Artificial Intelligence (AI)-Driven Reverse Vending Machine, *i.e.,* an AI-powered plastic waste collection platform. This is to encourage behavioral change towards recycling through education.

This tax deduction applies to all contribution/sponsorship and application received by the Ministry of Finance from 1 April 2023 until 31 December 2024.

3.1.2. Tax Incentives for Carbon Capture and Storage

The Budget proposed various tax incentives be given to companies which utilizes the Carbon Capture Storage ("CCS") technology. This is in line with the National Energy Policy 2022-2040 and the target to achieve net zero greenhouse gas emissions by 2050 under the Paris Climate Agreement. In Malaysia, the oil and gas as well as the power generation industries are the pioneer industries which uses the CCS technology. The proposed tax incentives under the Budget are as follows:

Incentives	Incentive Period
(a) Companies Undertaking CCS In-House Activity	
(i) Investment Tax Allowance of 100% on qualifying capital expenditure which can be used to set-off against up to 100% of business statutory income	10 years

(ii) Full import duty and sales tax exemption on equipment used for CCS technology	From 1 January 2023 until 31 December 2027
(iii) Tax deduction for allowance pre-commencement expenses	Within 5 years from the date of commencement of operation
(b) Companies Undertaking CCS Services	
(i) Investment Tax Allowance of 100% on qualifying capital expenditure which can be used to set-off against up to 100% of statutory income	10 years
(ii) Income tax exemption of 70% on statutory income	10 years
(iii) Full import duty and sales tax exemption on equipment used for CCS technology	From 1 January 2023 until 31 December 2027
(c) Companies Using CCS services	
(i) Tax deduction on fees incurred for use of services	N/A

Application is to be made to the Ministry of Finance from 25 February 2023 until 31 December 2027. Tax deduction can be claimed through the Income Tax Return Form from YA 2023 until YA 2027.

3.1.3. Enhancement of Green Technology Tax Incentives

Under the Budget, the Government commits to study and enhance the Green Investment Tax Allowance ("**GITA**") and Green Income Tax Exemption ("**GITE**") packages.

Further, the Budget proposed that the Green Technology Financing Scheme ("**GTFS**") will also be enhanced with the guarantee value increased to RM 3 billion until 2025.

Our thoughts:

In recent years, there has been a growing awareness of the importance of Environmental, Social, and Governance (ESG) considerations in the global investment landscape, and Malaysia is no exception to this trend. ESG has become an essential factor for investors when evaluating potential investment opportunities. The Government has recognized the significance of ESG and is taking steps to incentivize corporations to adopt sustainable business practices.

The Government's proposed introduction and enhancement of the green tax incentives under the Budget are designed to promote ESG values and practices and to attract foreign investment to the country. This proactive approach is not only beneficial for the environment and society but also helps to build a more robust and resilient economy in the long run.

3.2. Tax Incentives to Support the Development of the Electric Vehicle ("**EV**") Industry

3.2.1. Sales Tax, Import Duty, Excise Duty Exemption

To spur the domestic demand and encourage the growth of locally assembled EV activity, the Budget proposed that tax incentives for EVs (which include passenger vehicles, commercial vehicles and electric motorcycles) be extended as follows:

<table>
<tr><th>Incentives</th><th>Incentive Extension Period</th></tr>
<tr><td>Full import duty exemption on components for locally assembled EV.</td><td rowspan="2">Until 31 December 2027</td></tr>
<tr><td>Full excise duty exemption and sales tax on Completely-Knocked-Down (CKD) EV.</td></tr>
<tr><td>Full import duty and excise duty exemption on imported Completely Built-Up (CBU) EV.</td><td>Until 31 December 2025</td></tr>
</table>

3.2.2. Incentives for the Manufacturer of Electric Vehicle Charging Equipment

To further complement the ecosystem for electric vehicle and to attract immediate high-value investment in the manufacturing of EV charging equipment, the Budget proposed the following tax incentives:

Incentives	Incentive Period
Income tax exemption of 100% on statutory income	YA 2023 to YA 2032
Investment Tax Allowance of 100% which can be set off against up to 100% of statutory income	5 years

This is to ensure that the product can be produced locally at a competitive cost to widen the infrastructure network of charging equipment. Applications must be made to MIDA within the period from 25 February 2023 and 31 December 2025.

3.2.3. Incentives for Companies Renting Non-Commercial Electric Vehicle

To encourage the use of low-carbon vehicles, the Budget proposed that companies that rent non-commercial EVs are to be given tax deduction of up to RM 300,000 on the rental amount. This is effective from YA 2023 to YA 2025.

Our thoughts:

The Malaysian automotive industry is the third largest in the Southeast Asian region. The automotive industry plays an important role in the country's manufacturing sector, contributing approximately 4% to the GDP of Malaysia, and employing a workforce of over 710,000 employees.

However, in recent times, there have been concerns on Malaysia's lack of EV infrastructure due to the limited number of EV charging stations. Recognizing the gaps and the needs for infrastructure development, the Malaysian government has pledged to build 10,000 EV charging stations by 2025 in collaboration with the private sector, per the Low Carbon Mobility Blueprint 2021-2030. The proposed tax incentive under the Budget for the manufacturing of EV charging facilities is in line with this objective.

The proposed tax incentives for EVs are in line with increasing global investments into the EV industry and would hopefully create a new market demand for EVs locally. Since the scope of the proposed tax incentives extends to components for locally assembled EVs as well as CKD EVs, it represents an opportunity for *businesses in the EV industry to set up manufacturing or assembly plants in Malaysia for expansion in the Southeast Asian region.*

3.3. Tax Incentives to Support Food Related Projects

3.3.1. Tax Incentives for Chicken Rearing in Closed House System

To encourage more chicken rearers to adopt environmental-friendly closed house system as well as to increase productivity, the Budget proposed the following tax incentives be given to qualifying capital expenditure incurred from YA 2023 to YA 2025:

(a) Accelerated Capital Allowance (ACA) of 100% on the qualifying capital expenditure; and

(b) Income tax exemption of 100% equivalent to the qualifying capital expenditure.

3.3.2. Review of Tax Incentives for Food Production Project

Presently, tax incentives for food production projects are given as follows:

Incentives	Incentive Period
Tax deduction for a company investing in a subsidiary company engaging in new food production project	N/A
Income tax exemption of 100% on statutory income for a company engaging in a new food production project	10 YAs
Income tax exemption of 100% on statutory income for a company engaging in expansion of a food production project	5 YAs

The Budget proposed that the application period for these tax incentives be extended for 3 years to 31 December 2025. It also proposed that the scope of tax incentives be expended to include agricultural projects based on Controlled Environment Agriculture.

3.4. Review of Tax Incentives for BioNexus Status Company

In support of the Government's plan to attract more biotechnology industry players to Malaysia, the Budget proposed that the existing income tax exemption on statutory income for companies with BioNexus status be increased from 70% to 100%. Additionally, the application period for the existing BioNexus company tax incentives to the Malaysian Bioeconomy Development Corporation is extended for another 2 years from 1 January 2023 until 31 December 2024.

3.5. Extension Of Tax Incentive For Ship Building And Ship Repairing ("**SBSR**") Industry

As a continuing effort to make Malaysia a regional hub for SBSR, the Budget proposed that the following tax incentive be extended for a period of 5 years until the end of 2027:

- New company
    - Income tax exemption of 70% of statutory income for a period of 5 years; or
    - Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years. The allowance can be set-off against up to 70% of the statutory income for each year of assessment.

- Existing company
    - Investment Tax Allowance of 60% on qualifying capital expenditure incurred within 5 years. The allowance can be set-off against up to 70% of the statutory income for each year of assessment.

This incentive is available for applications received by MIDA from 1 January 2023 until 31 December 2027.

3.6. Extension Of Tax Incentive For Aerospace Industry

The Government considers the aerospace industry to be a high-impact and strategic sector that is capable to drive the nation's development, as recognized under its Twelfth Malaysia Plan.

To further attract new aerospace companies and encourage existing companies' expansion, the Budget proposed for the following tax incentives to be extended for a period of 3 years until the end of 2025:

- New company
    - Income tax exemption of 70% to 100% for a period between 5 to 10 years; or
    - Investment Tax Allowance of 60% to 100% for a period of 5 years. The allowance can be set-off against 70% to 100% of statutory income for each year of assessment.

- Existing company
    - Investment Tax Allowance of 60% for a period of 5 years. The allowance can be set-off against 70% of statutory income for each year of assessment.

The incentive will attract more companies to base their aerospace projects in Malaysia, in line with its goal in becoming a global aerospace center in the Asia-Pacific region. The incentive is available for applications received by MIDA from 1 January 2023 until 31 December 2025.

4. Stamp Duty

4.1. Stamp Duty Treatment for Transfer of Property By Way of Love & Affection

The Budget proposed a 100% stamp duty exemption for the instruments of transfer of property by way of love and affection executed from 1 April 2023 between parents and children, grandparents and grandchildren, limited to the first RM 1 million of the property's value.

For the remaining balance of the property's value, it is subject to *ad valorem* stamp duty rate and is given 50% remission on the stamp duty imposed.

Sale Price/ Market Value of Property (whichever is higher) (RM)	Stamp Duty Rate (%)
First RM 1 million	100% Stamp Duty Exemption
Remaining balance	50% Stamp Duty Remission

4.2. Stamp Duty Treatment for Educational Loan/Scholarship Agreement

Currently, stamp duty on educational loan/ scholarship agreement to pursue tertiary education level (diploma and above) at higher learning institutions is imposed at a fixed duty of RM10, whilst for other levels are charged at *ad valorem* rate.

To streamline the stamp duty treatment for all levels of education, the Budget proposed that a fixed duty of RM 10 be imposed on educational loan/ scholarship agreement to pursue education at all levels including certificate (education/skills/professionals) in any educational and training institutions.

4.3. Stamp Duty Exemption for First-Time Home Ownership

To encourage home ownership, the Government has proposed stamp duty exemption for first time home-buyers as follows:

Property Value of 1st Residential Home (RM)	Stamp Duty Exemption (%)	Period
RM 500,000 and below	100%	Until the end of 2025
RM 500,001 to RM 1 million	75%	Until 31 December 2023

The stamp duty exemption for first residential property with value from RM 500,001 to RM 1 million has been increased from 50% to 75%.

4.4. Stamp Duty Extensions (Exemptions on Restructuring or Rescheduling Loan/Financing Agreements)

The Budget also proposed to extend the stamp duty exemptions on restructuring or rescheduling of loan/ financing agreements:

Current Position	Extension
100% stamp duty exemption is provided on the restructuring or rescheduling of loan/financing agreements between borrowers and financial institutions executed during the period from 1 January 2022 to 31 December 2022 subject to below conditions, *i.e.,*: i. the original loan/ financing agreement has been duly stamped; and ii. the restructuring or rescheduling of the loan/ financing agreement shall not have the element of additional value to the original amount of loan/ financing.	Exemption period will be extended for 2 years, for qualifying agreements executed during the period from 1 January 2023 to 31 December 2024.

5. Indirect Tax

5.1. Non-Implementation of Goods and Services Tax ("**GST**")

The GST was first introduced in Malaysia in 2015 and was repealed in 2018 and replaced with the Sales and Services Tax ("SST"). Since its repeal, there have been calls to reintroduce the GST on the basis that it is a broader and more efficient tax system than the SST which could help the Government to increase its revenue.

In the Budget speech, the Government noted that GST would not be re-introduced for now in view of the high-inflation and low-wages economic environment.

5.2. Imposition of Luxury Goods Tax

The Government has proposed to introduce a Luxury Goods Tax starting this year, *i.e.,* 2023, with a certain value limit according to the types of luxury goods. Amongst others, these luxury goods include luxury watches and luxury fashion items. There are currently no indications on the possible rate of Luxury Tax.

Our thoughts:

A luxury goods tax is a tax levied on goods that are considered non-essential or luxurious. Luxury goods tax is considered to be a progressive tax as it only applies to a limited demographic of taxpayers i.e., high-income groups who can afford the luxury goods.

Generally, luxury goods tax may be charged as a percentage of the purchase price for the goods which is valued above a certain threshold. At present, more clarification is required surrounding the implementation of luxury taxes, particularly with regard to the specific threshold, tax rates, and types of goods that will be subject to the tax.

At the outset, luxury taxes may be seen as effective in increasing tax revenues, as they target high-income individuals who can afford to purchase luxury goods. However, these taxes may be ineffective or counterproductive, as they can discourage investment and limit consumer spending on luxury items (or drive consumers to purchase these goods and services in other countries where taxes are lower), which can ultimately lead to decreased tax revenues.

The tax may also be seen as unreliable to generate necessary revenues as the imposition of the taxes is reliant upon consumers' personal choice, where consumers can opt to change their spending behavior. While luxury taxes are a popular tool for generating additional revenue for governments, their effectiveness in achieving this goal requires ongoing monitoring and evaluation. The amount of revenue which may be generated will also depend on the rate to be imposed and the categories of goods affected.

5.3. Review of Excise Duty and Sales Tax Exemption on the Sale or Transfer of Individually Owned Taxis and Hired Cars

The Budget proposed that the scope of excise duty and sales tax exemption on the sale, transfer, private use or disposal of individually owned taxis and hired cares be expanded as follows:

(a) types of vehicles are increased to cover budget taxis, executive taxis, TEKS1M, airport taxis (budget and family) and hired cars; and

(b) the vehicle age condition is relaxed to from 7 years to at least 5 years from the date of registration.

6. Others

6.1. Review of Tax Deduction on Cost of Listing in Bursa Malaysia

As part of the Government's plan to encourage technology-based companies and MSMEs to expand their business through raising capital funds in Bursa Malaysia, the Government proposed to extend the existing tax deduction (up to RM 1.5 million) on listing costs on the ACE and LEAP markets respectively for another 3 years *i.e.*, from YA 2023 to YA 2025.

This tax deduction is proposed to be extended to listing of technology-based companies on the Bursa Main Market.

6.2. Tax Deduction on Issuance Cost of Sustainable and Responsible Investment Linked Sukuk

Following the introduction of the framework on Sustainable and Responsible Investment Linked Sukuk ("**SRI-linked Sukuk**") by the Securities Commission Malaysia ("**SC**"), the Government proposed to provide tax deduction on the cost of issuing SRI-linked Sukuk that is approved or permitted or deposited with the SC, with effect from YA 2023 to YA 2027.

Our thoughts:

With ESG considerations now being one of the major concerns of business operations, this amendment, if implemented, is a welcome move for companies looking to advance their sustainability efforts.

6.3. Reintroduction of Voluntary Disclosure Programme ("**VDP**")

The Inland Revenue Board of Malaysia ("**IRB**") and the Royal Malaysian Custom Department ("**RMCD**") will relaunch the VDP. Under the VDP, a 100% penalty waiver will be granted for voluntary disclosures made between 1 June 2023 and 31 May 2024, covering both direct and indirect taxes.

This programme is to encourage the compliance of taxpayers and to increase the revenue of the Government. More details in respect of the scope of the VDP have yet to be disclosed by the IRB and RMCD respectively.

Our thoughts:

This is not the first time a VDP has been implemented in Malaysia. Previously, the IRB had introduced the Special Voluntary Disclosure Programme (SVDP) for direct taxes from 3 November 2018 until 30 September 2019. Subsequently, the RMCD followed suit by introducing its VDP for indirect taxes which took place from 1 January 2022 until 30 September 2022.

The SVDP was largely considered a success, where a total of 286,482 taxpayers participated in the program, resulting in the collection of RM7.877 billion in additional taxes for the IRB.

Since the proposed VDP under the Budget offers a complete penalty waiver to taxpayers who voluntarily disclose their unreported taxes, compared to the 10-15% penalty in the SVDP, it is anticipated that more *taxpayers will participate in the program. Consequently, we can expect the collection of additional taxes under the proposed VDP to exceed the sums collected under the previous SVDP.*

To enjoy the significant tax savings offered, taxpayers should review their tax compliance to determine if there are any taxes underpaid, undeclared or reported erroneously and take this opportunity to remedy the same in this VDP.

The success of this VDP will be largely dependent on several factors: (i) existence of a proper and defined process to make the disclosure (ii) reassurance that there will not be any future audits for the years declared and (iii) assurance that the terms for the additional tax to be paid will not be prohibitive.

6.4. Tax Exemption On Nicotine Replacement Therapy & Excise Duty on Liquid or Gel Used for Electronics Cigarettes and Vape

Since 2000, Malaysia has put in place various smoking cessation services in Government health clinics and hospitals, and in the private sector including hospitals, pharmacies and clinics under the 'mQuit Programme' which was introduced in 2015. Under this programme, the Nicotine Replacement Therapy is used as one of the medical treatment options to quit smoking.

In this Budget, the Government is seen taking a more rigorous approach toward curbing smoking in Malaysia. Firstly, it is proposed that import duty and sales tax exemption will be given on nicotine gum and nicotine patch for a period of 3 years.

Product	Tariff Code	Import Duty (%)	Sales Tax (%)
Nicotine Gum	2404.91.1000	15%	5%
Nicotine Patch	2404.92.1000	0%	10%

Application for the same can be made through the Malaysia Ministry of Finance starting 1 April 2023.

Secondly, in an effort to reduce electronic cigarettes or vape usage, the Budget also reintroduced the levying of excise duty on nicotine contained liquids or gel used for electronic cigarettes or vape. The proposals to levy excise duty on liquid or gel products containing nicotine was first raised in Budget 2022 to be effective from 1 January 2022 but was subsequently postponed indefinitely by the RMCD.

Lastly, in furtherance of the Generational End Game *i.e.*, to ban the use, possession and sale of cigarettes and vape products for those born after 2007, the Budget proposed that half of the abovementioned excise duty revenue will be reallocated to the Ministry of Health to improve the quality of Malaysia's healthcare services.

6.5. Development of Iskandar Malaysia as a Special Financial Zone

Iskandar Malaysia (previously known as South Johor Economic Region) was first identified by the Government's Ninth Malaysia Plan as one of the regional economic areas to catalyze national growth.

The Government, in an effort to accelerate the social and economic development of this southern peninsular region of Malaysia, has announced proposals to create a special financial zone and competitive remuneration package in Iskandar Malaysia to attract international investors and skilled workers to reside in Malaysia.

6.6. Tax Incentives to Data Centers

In this Budget, the Government addressed the issue of low efficiencies in the Government services sector as contributed by outdated work cultures, unreasonable regulations and time-consuming procedures. To address this, the Government stressed that its services must be agile in adapting to technology and digital means to reduce bureaucracy.

It is proposed that more data centers will be opened in Malaysia by providing tax incentives and security infrastructure, green energy facilities and the locations to drive the development of these data centers in Malaysia. However, the scope and details of the said incentives have yet to be revealed to-date.

6.7. Tax Incentive for Electrical and Electronics ("**E&E**") and Aerospace Companies Relocating Operations to Malaysia

The Government has proposed that it will extend the tax incentive given to manufacturing companies that relocate to Malaysia and the tax rate of 15% for C-Suite executives until 2024 to attract companies that were affected by COVID-19 to operate in Malaysia. Based on the Budget speech, the extension would also cover the E&E and Aerospace sectors.

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